



# Otego-Unadilla Central School District

## Financial Condition

### Report of Examination

Period Covered:

July 1, 2011 — January 22, 2013

2013M-84



Thomas P. DiNapoli

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# State of New York Office of the State Comptroller

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## **Division of Local Government and School Accountability**

June 2013

Dear School District Officials:

A top priority of the Office of the State Comptroller is to help local government officials manage government resources efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of local governments statewide, as well as compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations and Board of Education governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard local government assets.

Following is a report of our audit of the Otego-Unadilla Central School District, entitled Financial Condition. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the General Municipal Law.

This audit's results and recommendations are resources for local government officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

*Office of the State Comptroller  
Division of Local Government  
and School Accountability*

# Introduction

## **Background**

The Otego-Unadilla Central School District (District) is located in the Towns of Otego, Unadilla, Laurens, Oneonta, Butternuts, Sidney, and Franklin in Otsego and Delaware Counties. The District is governed by the Board of Education (Board) which comprises seven elected members. The Board is responsible for the general management and control of the District's financial and educational affairs, including budget development.

The Superintendent of Schools (Superintendent) is the chief executive officer of the District and is responsible, along with other administrative staff, for the day-to-day management of the District under the direction of the Board. The District Business Official plays a key role in the budget development process and daily administration of the Business Office.

The District's budgeted expenditures for the 2012-13 fiscal year were \$21.2 million, which were funded primarily with real property taxes, State aid, and grants. There are three schools in operation within the District, with 968 students and 200 employees.

## **Objective**

The objective of our audit was to examine the District's financial condition. Our audit addressed the following related question:

- Did the Board and District management effectively manage the District's financial condition?

## **Scope and Methodology**

We examined the District's financial condition and budgeting practices for the period July 1, 2011, to January 22, 2013. We extended our scope period back to July 1, 2008 to examine the District's financial condition and to provide additional information for perspective and background.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit is included in Appendix C of this report.

## **Comments of District Officials and Corrective Action**

The results of our audit and recommendations have been discussed with District officials and their comments, which appear in Appendix A, have been considered in preparing this report. District officials disagreed with the findings and recommendations in our report. Appendix B includes our comments on the issues raised in the District's response letter.

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of the General Municipal Law, Section 2116-a (3)(c) of the Education Law and Section 170.12 of the Regulations of the Commissioner of Education, a written corrective action plan (CAP) that addresses the findings and recommendations in this report must be prepared and provided to our office within 90 days, with a copy forwarded to the Commissioner of Education. To the extent practicable, implementation of the CAP must begin by the end of the next fiscal year. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. The Board should make the CAP available for public review in the District Clerk's office.

## Financial Condition

The Board and District management are responsible for making sound financial decisions that are in the best interest of the District and the taxpayers that fund its operations. This responsibility requires the Board to balance the level of services desired and expected by residents with the ability and willingness of the residents to pay for such services. Therefore, it is important that the Board adopt budgets that include realistic estimates of revenues and expenditures developed by the Superintendent and Business Official. Prudent fund balance<sup>1</sup> management is also necessary to sustain operations, by providing the flexibility to address unexpected occurrences, and satisfy long-term obligations or future expenditures.

Although the Board and District management believed they were effectively managing the District's financial condition, the adopted budgets continually included overestimated revenues and appropriations. While recognizing that the actual results of the District's operations were reasonably close to the estimates each year, the cumulative effect of these variances resulted in a 52 percent increase in the District's fund balance. The Board continued to adopt budgets that included annual real property tax levy increases even though the District had funding surpluses for four of the last five completed fiscal years.

For the five fiscal years ended 2012, the District received nearly \$950,000 more than they spent. However, during the same period, the Board adopted budgets that planned to spend over \$2 million more than they had planned to receive.

<b>Table 1: Budget vs. Actual Revenues and Expenditures</b>						
	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>Totals</b>
Estimated Revenues	\$18,198,641	\$18,897,093	\$19,222,361	\$20,383,087	\$20,328,571	\$97,029,753
Actual Revenues	\$17,638,161	\$18,536,343	\$18,915,347	\$19,356,436	\$19,875,038	\$94,321,325
Variance	(\$560,480)	(\$360,750)	(\$307,014)	(\$1,026,651)	(\$453,533)	(\$2,708,428)
Appropriations	\$18,548,641	\$19,217,093	\$19,542,361	\$20,783,087	\$21,202,678	\$99,293,860
Actual Expenditures	\$17,403,911	\$18,295,137	\$18,448,841	\$19,673,240	\$19,553,182	\$93,374,311
Variance	\$1,144,730	\$921,956	\$1,093,520	\$1,109,847	\$1,649,496	\$5,919,549
Operating Surplus/ Deficit	\$234,250	\$241,206	\$466,506	(\$316,804)	\$321,856	\$947,014

<sup>1</sup> The State Education Department regulations require school districts to use any available fund balance that is greater than 4 percent of the ensuing year's total general fund appropriations.

Most of the \$2.7 million variance in actual revenues was due to the District receiving less State aid than the District estimated.<sup>2</sup> The aggregate expenditures variance of nearly \$6 million was driven primarily by salaries and employee benefits. All of the District's employees are covered under various employment agreements that outline each employee's salary and benefit allowances; therefore, these costs can be easily predicted with reasonable accuracy.

The District's annual budgets also included the use of fund balance to finance operations in order to keep the real property tax levies at amounts the Board considered to be reasonable, while filling the financial gap the Board perceived to exist. For a five-year period, the Board adopted budgets that included an aggregate appropriated unexpended surplus<sup>3</sup> of more than \$2.2 million. However, very little of the planned amount was used because, for the same period, actual operations generated surpluses totaling nearly \$1 million.

<b>Table 2: Results of Operations</b>						
	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>Total</b>
Operating Surplus/ Deficit	\$234,250	\$241,206	\$466,506	(\$316,804)	\$321,856	\$947,014
Appropriated Unexpended Surplus	\$350,000	\$320,000	\$320,000	\$400,000	\$874,107	\$2,264,107
<b>Total Surplus</b>	<b>\$584,250</b>	<b>\$561,206</b>	<b>\$786,506</b>	<b>\$83,196</b>	<b>\$1,195,963</b>	<b>\$3,211,121</b>

At the same time that the general fund's fund balance was increasing, the District was also increasing the real property tax levy:

<b>Table 3: Real Property Tax Trends</b>						
	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
Tax Levy	\$5,887,073	\$6,176,806	\$6,286,810	\$6,411,449	\$6,536,977	\$6,687,717
Tax Rate	\$17.15	\$16.63 <sup>(a)</sup>	\$15.83 <sup>(a)</sup>	\$16.60	\$17.13	\$18.00

<sup>(a)</sup> The real property tax rate decreased for the 2008-09 and 2009-10 while the real property tax levy increased because of a significant change in total assessed value of the taxable properties within the District.

<sup>2</sup> This was largely due to a timing difference of \$1 million in building State aid originally budgeted for in 2011 that the District wound up receiving in 2012.

<sup>3</sup> The Governmental Accounting Standards Board (GASB) issued Statement 54, which replaces the fund balance classifications of reserved and unreserved with new classifications: nonspendable, restricted, and unrestricted (comprising committed, assigned, and unassigned funds). The requirements of Statement 54 are effective for fiscal years ending June 30, 2011 and beyond. To ease comparability between fiscal years ending before and after the implementation of Statement 54, we will use the term 'unexpended surplus funds' to refer to that portion of fund balance that was classified as unreserved, unappropriated (prior to Statement 54), and is now classified as unrestricted, less any amounts appropriated for the ensuing year's budget (after Statement 54).

Additionally, during this time period, the Board eliminated teaching positions and support staff which may have contributed to the operating surpluses. The District also reconfigured the school buildings for the current fiscal year and expect to realize additional savings from that decision. While we want to commend the Board and District management for taking a proactive approach to ensuring the District's future positive financial condition, these decisions were driven by the Board's belief the District's financial position was in worse condition than it actually was when the positions were eliminated. In fact, the general fund's fund balance has consistently been more than 4 percent of the general fund's expenditures, with a projected surplus for the fiscal year ending June 30, 2013 of more than 8 percent of their projected expenditures.

## **Recommendations**

1. The Board should adopt budgets that include the District's actual needs based on historical trends or other identified needs.
2. District officials should develop a plan for the use of the surplus balance in unexpended surplus funds identified in this report in a manner that benefits District taxpayers and provides appropriate transparency through the budget process with public disclosure. Such uses could include, but are not limited to, reducing District property taxes, funding one-time expenditures, or establishing necessary reserves.

## **APPENDIX A**

### **RESPONSE FROM DISTRICT OFFICIALS**

The District officials' response to this audit can be found on the following pages.

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(607) 988-5038

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Business Manager  
(607) 988-5091

The Board of Education and the Administration would like to thank the Comptroller's Office for working with us to finalize the Otego-Unadilla Central School District Financial Condition Report of Examination for July 1, 2011 – January 22, 2013. While we disagree with the Comptroller's conclusions, the report is a fair and accurate account of our financial condition. Our disagreement is philosophical, and both sides agree that the controls and processes in place are sufficient to safeguard the district's financial assets.

The disagreement centers on whether the Board and Administration effectively managed the district's financial condition. The Comptroller points out that district revenues exceeded expenditures by \$947,014 from 2008 through 2012. Their analysis does not take into account any of the reasons or causes of the surplus. While the accumulated total may seem large, it represents a positive variance of 1.26% to 2.38% annually.

**Table 1: Budget vs. Actual Revenues and Expenditures**

	2008	2009	2010	2011	2012	Totals
Estimated Revenues	\$18,198,641	\$18,897,093	\$19,222,361	\$20,383,087	\$20,328,571	\$97,029,753
Actual Revenues	17,638,161	18,536,343	187,915,347	19,356,436	19,875,038	94,321,325
Variance	(560,480)	(360,750)	(307,014)	(1,026,651)	(453,533)	(2,708,428)
Appropriations	18,548,641	19,217,093	19,542,361	20,783,087	21,202,678	99,293,860
Actual Expenditures	17,403,911	18,295,137	18,448,841	19,673,240	19,553,182	93,374,311
Variance	1,144,730	921,956	1,093,520	1,109,847	1,649,496	5,919,549
Operating Surplus/Deficit	\$234,250	\$241,206	\$466,506	(\$316,804)	\$321,856	5,919,549
% Surplus/Deficit	1.26%	1.26%	2.39%	(1.52%)	1.52%	.95%

See Note 1  
Page 12

See Note 2  
Page 12

In 2008, the district had an operating surplus of \$234,250. At the time the district's unappropriated fund balance was \$425,506, or \$343,177 below the allowable limit of 4% of the 2008-2009 budget. The operating surplus was used to raise the unappropriated fund balance to 3.75% at the end of 2008-2009. One of the Comptroller's recommendations was the district use its surplus to fund reserves. By increasing fund balance to the allowable limit, that is what we did. The surplus also allowed us to avoid drawing down our debt service reserve. Without these surpluses, the reserve would have been depleted in the 2011-2012 school year.

See  
Note 3  
Page 12

In 2008-2009 and 2009-2010 we also ran a surplus, but in 2010-1011 we had an operating deficit of \$316,804. This caused us to draw down reserves by that amount.

See  
Note 4  
Page 12

See  
Note 5  
Page 12

In 2011-2012 our operating surplus was \$321,856. \$250,000 was due to a savings realized when our bargaining units agreed to a change in health coverage. \$50,000 was a result of a grant from State Senator James Seward. Since both these events happened after the adoption of the 2011-2012 budget, the actual variance as a positive \$21,856 or 0.3%.

The Comptroller's analysis was done with the benefit of hindsight. While unanticipated revenues can improve our outlook, unanticipated expenditures can damage our financial condition just as quickly. Approved rates for special education programs are set by New York State after the close of the fiscal year. This results in retroactive payments to providers. We were billed an additional \$97,000 by Otsego County this year for adjustments to prior year's rates. Programs for new special education students can range from a few thousand dollars to over \$100,000 a year. Transportation costs for homeless children can occur at any time during the school year. Our budget is built to accommodate these unanticipated expenditures.

The district has always tried to balance the needs of our students with then needs of our taxpayers. Our goal is to take a long range perspective and to avoid large tax increases. . It has been our history that levy increases above that of area schools will not pass. For 5 years the district has kept its levy increase to 2% or less.

---

Charles Molloy, Superintendent

## APPENDIX B

### OSC COMMENTS ON THE DISTRICT'S RESPONSE

#### Note 1

The actual revenues for 2010 are misstated. The correct amount is \$18,915,347, not \$187,915,347.

#### Note 2

The total operating surplus over the five-year period was \$947,014, not \$5,919,549.

#### Note 3

The year-end unappropriated fund balance for 2007-08 was not \$425,506. It was \$720,291, which was \$48,393 below the allowable 4 percent limit.

#### Note 4

The District does not have a debt service reserve in the general fund. We believe the District is referring to the fund balance in the debt service fund.

#### Note 5

The reserves referred to in this sentence are actually unappropriated fund balance.

## APPENDIX C

### AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the District's financial condition. To accomplish the objective of our audit we performed the following steps:

- We interviewed District officials and reviewed the meeting minutes and resolutions to gain an understanding of the District's budget development, monitoring procedures, and control processes.
- We reviewed the results of operations and analyzed changes in fund balance for the general fund from July 1, 2008, to June 30, 2012.
- We analyzed the interfund advances and transfers between the general fund and the other District funds from July 1, 2008, to June 30, 2012.
- We reviewed the major receivables such as State and Federal aid for the fiscal years ending June 30, 2011, and June 30, 2012, and verified the collection of the funds.
- We obtained the general fund checking account detail from July 1, 2011, to January 22, 2013, from the financial software and reviewed it for any short-term financing or interfund transfers to the general fund to determine if there was sufficient cash to fund operations throughout year.
- We projected the District's fund balance up to June 30, 2013, by reviewing current financial information, projecting out the revenues and expenditures, and interviewing District officials to determine whether there were any large expenditures or revenues that they were aware of.
- We compared the budgeted revenues and appropriations to the actual revenues and expenditures for the 2007-08 to 2011-12 fiscal years to determine if the District was budgeting reasonably.
- We reviewed the District's tax levy, taxable assessment, and tax rate for 2007-08 to 2012-13 to determine if the tax levy and rates had been increasing.

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

## APPENDIX D

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